ECONOMIC INVESTMENT POLICY

3.7.1 PREAMBLE

- The offering of investment incentives and business retention measures is the worldwide practice in both developed and developing countries, provinces and cities.

- Governments to attract and grow investment, to steer investment into favoured industries and/or regions, or to influence the character of an investment, use investment incentives, e.g. when labour-intensive investment is being sought.

- On the other hand governments often introduce business retention measures to either (a) keep a business from leaving or (b) try to keep a facility from shutting down, i.e. to assist business in distress.

- The primary objective of this pilot policy is to attract new investment to priority-disadvantaged areas, with the aim to accelerate job and business opportunities. This measure is supplementary to the wider range of initiatives to develop these areas.

- The manner in which surplus funds and other monies are invested is dependent upon various legislation.

  - In terms of the Municipal Finance Management Act a prescribed framework may be determined for investments by the Minister.

  - In terms of existing legislation, municipalities are restricted to make investments with registered institutions such as Commercial and Merchant Banks.

7.2.2 OBJECTIVES OF POLICY

The purpose of the policy is to ensure that surplus funds are invested so that the highest return is obtained with minimum risk involved.

7.2.3 DEFINITIONS

In this policy a word or phrase to which a meaning has been assigned in Section 1.0 on definitions has that meaning, unless the context otherwise indicates.

7.2.4 THE NEED FOR INCENTIVES

The Modimolle Municipality is committed to ensure sustainable economic development and growth through increasing global competitiveness and reducing levels of poverty. Key to this is the retention and expansion of existing business, as well as the attraction of new investment.

For quite a prolonged period the Municipal's economy has performed well above the national average annual growth rate of 3%, but even so, the economy cannot reduce current unemployment and absorb new comers to the labour force. In fact the Municipal's economy falls far short of the 7% from worsening.

Another trend is that, almost exclusively, private investment that flows to Modimolle is concentrated in the more developed or affluent areas. This re-enforces the inequitable spread of economic activities in the Municipality. It is imperative to also attract investments towards areas whose economic potential is still latent because this will enable those people to share in the benefits of economic growth and development.
Guided by the Integrated Development Plan (IDP) the Municipal has introduced six strategies to bend the prevailing negative socio-economic trends. These include the following:

- Shifting the development emphasis from the periphery to the urban core.
- Upgrading existing settlements to places of dignity and opportunity.
- Building competitive advantage.
- Facilitating sustainable job creation for all.
- Building cohesive self-reliant communities.
- Improving access and mobility.

These strategies work together in a mutually reinforcing manner and are highly coordinated and a spatially focused approach is followed to build linkages and synergies to maximize the overall impact.

The introduction of targeted investment incentives is aimed at bolstering the implementation of the aforesaid strategies. These investment incentives will be an extra or special effort to attract investment to these areas over and above other initiatives like the urban renewal programme, the extended public works programme, business support services, etc. in summary: this targeted investment incentive is being proposed to unlock economic opportunities in low-income areas and to bring jobs closer to the poor, i.e. as a tool for economic integration in our city.

7.2.5 CONTEXT

The formulated of this pilot investment incentives policy was done in the context of:

a) The South African political system

The respective competencies and roles of all three spheres of government and the various parastals have been observed. This investment incentive should fall within the ambit of the local government competencies and responsibilities, i.e. they should focus on those things that the council can influence directly.

Furthermore, the funding mechanisms and financial regulations that guide the intergovernmental relationships should also be observed. This includes compliance with the Municipal Finance Management Act, as well as various other critical legislation.

b) The existing national incentives offered by the Department of Trade and Industry.

The National Department of Trade and Industry, in co-operation with the Industrial Development Corporation, offers over 90 incentive, loans and rebates to attract investment and to support business development. These incentives include the following categories:

- Investment support
- Small business development
- Empowerment finance
- Increasing competitiveness
- Innovation and technology
- Export assistance
- Industrial development zones (e.g. Coega)
- Urban development zones (a tax incentive)
- Film incentive
c) The galaxy of national and provincial policies and strategies

It is imperative that the investment incentive is aligned with other government policies and strategies. These include, inter alia, the following: integrated Manufacturing Strategy, Micro-economic Reform Strategy, Advance Manufacturing Technology Strategy and Development Framework, Provincial Strategic Infrastructure plan, Provincial Spatial Development Framework, National Skills Development Strategy and Expanded Public Works Programme.

d) The rules of the World Trade Organisation (WTO)

South Africa subscribes to rules and conducts of the WTO. The WTO has introduced a multilateral trading system aimed at removing restrictions to trade, i.e. removing import tariffs (free market access) and abolishment of export subsidies. For example if the Council charges certain companies “less than cost price” for services rendered it will constitute a subsidy under the WTO agreement.

e) Integrated Development Plan (IDP)

The IDP is a key document in the municipality. It seeks to guide both the citizens and Staff and to clearly set out the strategic direction of the council and how it will allocate its resources. Fundamentals to the IDP are to redress poverty and inequality. Strategy2 (Upgrading Existing villages/ Settlements) of the IDP is aimed at finding ways of decentralizing jobs and opportunities close to where the poor people live.

f) The Council’s Strategic Sector and Cluster Growth and Development Support Policy

This draft policy provides for the support by the council to sector development organisations. It is the responsibility of these organisations to facilitate the development and promotion of their respective sectors.

g) Other investment support by the Council

The Council supports all initiatives to promote business and tourism related investment in the Municipality.

7.2.6 GUIDING PRINCIPLES

A number to principles guide the design and introduction of the investment incentive, namely:

Principle 1: Affordability

The introduction of the incentive should not create a cost to the Council and the income forgone should not have a severe effect on the revenue stream of the Council.

The introduction of the incentive should not jeopardize financial allocations from National Government to the Council.

Principle 2: Transparency and Uniformity
The granting of an investment incentive will be done according to a set of predetermined criteria and information on the actual granted incentive will be open for public knowledge.

**Principle 3: Targeted**

The investment incentive will only be applicable in specific areas, i.e. areas identified for incentives for economic growth in the IDP.

**Principle 4: Simplicity**

The structure and administration of the investment incentive have to be easily understandable and should not require a complex administration so as to minimize staff and financial impacts. This will ensure quick turnaround times for applications (urgency and speed is essential to attract and retain investment).

**Principle 5: Cooperative governance**

The incentive is intentionally modest so as to avoid an incentive and relocation war with other investment locations in South Africa.

**Principle 6: continuous review**

The investment incentive will be regularly reviewed to ensure relevance and effectiveness.

### 7.2.7 INVESTMENT INCENTIVES

This investment incentive is aimed at inducing companies that have already decided to invest in Modimolle to set up their facilities in disadvantaged areas. The specific objective is to achieve the construction of additional economic facilities, which will lead to the creation of new permanent direct and indirect jobs (and of course some temporary jobs during the construction phase).

The Modimolle Municipality offers the following discretionary investment incentive to prospective investors in specific geographical areas:

(a) A total exemption from property tax for one year as from the date that an occupation certificate was issued for the constructed building.

The rationale for this is that the first year (the construction and start up phases) is the most difficult period for a new business and expansions, especially in terms of cash flow. This incentive could assist to relief initial cash flow pressures. However it will not make an unsustainable operation profitable.

The granting of this incentive is subject to the following qualifying criteria:

(a) Any landowner/investor can apply, both foreign and national.
(b) A facility that will house the economic activity has to be constructed or refurbished for new activity (e.g. a residential house will not qualify, but a hotel will). No exemption will be considered in cases where the owner did not introduce any new investment (this excludes the renovation or refurbishment of existing economic infrastructure).
(c) The incentive is linked to the investment in the economic activity and not the investment in the facility, i.e. the economic activity must operate from the facility post construction.
(d) It has to be an expansion of an existing economic activity or new economic activity.
(e) The economic activity should be located in any previously disadvantaged area.
(f) A minimum of 30 jobs should be created by the economic activity excluding the construction of the facility of which 80% (24 workers) should be employed from the local community.
(g) The applicant should have at least a 30% Black Economic Empowerment share (equity).

An applicant seeking to qualify for the investment incentives will submit the following documents to the Council:

(a) Copies of the company’s registration documents and applicable industrial commercial licence
(b) Account numbers and other identifying details of tax registration, rates, RSC levy and utility accounts,
(c) Latest audited financial statements or any other appropriate financial documentation on the financial status of the applicant,
(d) Any other information required by the Council to make an informed decision.

7.2.8 IMPLEMENTATION STRATEGY

It is proposed that the incentive be introduced for a trial period of one year for the following reasons:

a. Although the Council recognized the positive impact that the incentive can have, it is also aware of the negative impacts and accompanied risks that it can have.

b. The trial period will enable the Council to evaluate the financial and administrative impacts of the incentive in real terms, i.e. actual data will be used and not estimates and assumptions.

c. The relevance and effectiveness of the incentive will be assessed, i.e. what role did it play in the investment decision? Did the incentive cause an increased flow of investment to the targeted areas?

d. The outcomes of (a) and (b) will give clear guidance to the Council regarding future offering of incentives.

e. Various studies and surveys are currently commissioned to investigate a whole range of issues around investment and investment promotion. These include the research by the SA Cities Network on “How can Cities affect investment decision?” the Department of Trade and Industry’s revision of the National incentives and the impact assessment of incentives by the National Treasurer. Therefore, the trial or experimental period will enable the Council to consider the outcomes of these investment incentive and business retention policy and package.

The Directorate: Economic Development and Tourism will budget for the incentive in terms of an ordinary line item or programme. This will put a limit on the amount that can be spend on the incentive and allows for proper management thereof.

7.2.9 INSTITUTIONAL ARRANGEMENTS

The Economic Development and Tourism Directorate are responsible for driving the investment incentive in the Municipality. However to fulfil this role properly the Directorate works in partnership with other functional areas, other spheres of government and the sector organisation.
The Directorate: Revenue is responsible for facilitating the process to absorb this investment incentive into the Rates Policy. This Directorate will introduce the necessary accounting system to accommodate this incentive.

A joint Committee will evaluate applications and recommend to the Mayoral Committee. This committee will consist of officials from the following internal directorates and external agencies: Economic Development and Tourism, Revenue, Property Management, Planning and Sector Organisation (where applicable). Additional representatives and experts will be co-opted as and when necessary.

The application process
The application process can be summarized as follows:

- Information dissemination and preliminary discussions
- Organisations
- Completion of application form
- Screening of application
- Organisations
- Report to Joint Committee
- Evaluation and recommendation to MAYCO
- Decision (Approval/disapproval)
- Implementation and administration
- Monitoring and review

During this cyclical process applicants could be referred back for clarity and additional information.

7.2.10 MONITORING AND REVIEW

The Council will monitor continuously:

- The investment incentive to ensure the relevance and effectiveness thereof. This will involve the collection and analysis of a range of information including the number and quantum of new investments, number of new jobs created, number of existing jobs saved, etc.

Depending on circumstances the Council may partially review, replace or abolish the incentive. A comprehensive assessment and review of the investment incentive will be done at after one year so as to determine the desirability thereof.

- The performance and compliance of each qualifying company. In terms of the investment incentive the participating companies will be continuously monitored and a comprehensive annual performance assessment will be carried out so as to advice on the continuation or withdrawal of the incentive.